

From: Pat Mendenhall <pmendenhall@uscallc.com>
Sent: Sunday, December 22, 2013 3:01 PM
To: David Harris
Cc: Robin and Kathy Harrison (rharrison@chd-law.com); Eric Long (tipperlong@
Subject: Re: Theranos

I just spent 45 minutes speaking with Sunny Balwani, President and COO of Theranos.

Here is what I learned in no particular order-

- 1-they have 400 employees and will ramp to 800 in 2014
- 2- employee ramp is in sales and manufacturing
- 3- the "science" behind Theranos is complete.
- 4- no new science needed
- 5- no new invention needed
- 6- they are completely vertically integrated- they own the lab and the manufacturing.
- 7-100% manufacturing in USA- no subcontracting.
- 8- fully owned and protected manufacturing assures pricing and profit stability.
- 9-many more significant announcements coming 10-they saved a pharma company 204 million in clinical trial costs over 9 months 11-they can run a full body response to medication with drops in a day vs current technology would take a gallon of blood and a month (or in other words it can't currently be done).
- 12-current clinical trials take 6 viles and can run 10 to 12 tests. theranos takes 3 drops and can run 60 to 70 tests.
- 13- they have already negotiated billing codes with Medicare, Medicaid, and major carriers.
- 14-as of January 1st, approximately 50 percent of US citizens will be on government healthcare.
- 15-hospitals lose money on blood labs. currently blood labs cost hospitals over 200 percent of Medicare reimbursement and they bill private carriers at 400%. theranos saves them all a fortune. blood volumes becoming impossible to manage. Currently hospitals are required to test every in patient everyday for infection. This cost 1000 a day and take 3 days for results. theranos candor this for 80 dollars in an hour.
- 16- the competition is aware and has tried to address and down play theranos on conference calls with shareholders.
- 17- the competition is years behind on technology (maybe longer) and with bloated overheads and bureaucracy would have to charge the same rates they currently charge or higher therefore making their ability to compete let alone catch up very difficult if not impossible.
- 18- Theranos is heavily patented technology and intellectual property and is geared up to protect it.
- 19-the pricing of the tests has significant financial analysis behind them. the cheapest tests are usually add on not focused upon.
- 20- they are publishing their prices and results- this is a direct attack on competition.
- 21- their pricing could have been significantly higher but they designed it to be profitable, effective, and disruptive to the status quo. It is all designed to crush the competition while revolutionizing the health care industry.

Financials

- 1- they prefer to keep the competition guessing as to how much money they have and what their current revenue, profit margins, revenues sources, etc are.
- 2- they can fund growth thru current operations- no need for capital 3-they are raising money only to rapidly accelerate the business
- 4- they are fully to oversubscribed on a round of up to 200 million.

5- current market value is 7 billion

6- all shares all classes trade at \$75 per share pre split

7- split will be 5 for 1

8- current shareholders can participate in an offering at current price (15 dollars a share split adjusted)

9- this round will have to close this year (documents being sent to me now) 10-the 200 mill will be early next year and at a slightly higher valuation.

11- next years round is institutional and oversubscribed.

12- unlike most Silicon Valley start ups they don't like or want dilution

13- they are aware they raised money in 05 and are conscious about needing to offer liquidity to shareholders at around 10 year mark. This can happen in a traditional way like IPO or non traditional way like Facebook in private round transactions.

I was and continue to be very impressed with everything I hear. The reality at Theranos is far greater than we have imagined(since we hadn't been told we had to imagine) We have all experienced a significant return so far and we are a small part of a revolutionary game changing event for healthcare and human care. They are now doing genetic and human genome work that will push health care into areas not currently attainable. It looks and sounds like even at current levels this is an interesting stock. Of course they need to execute which they are doing now. It's also hard to know if 7 billion is a cheap valuation as both of the competitors are combined are 20 billion in market cap on combined 11 billion or so in revenue(please check my math).

Thanks,

Pat

I transcribed this email from my notes and I am confident I did so accurately. This is my opinion as a shareholder of Theranos and based on my conversation with the President and not the opinion of U S Capital Advisors.

Sent from my iPad

On Dec 22, 2013, at 1:34 PM, "David Harris" <dharris@uscillac.com> wrote:

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> From: Marco [marcostrofsky@
> Sent: Saturday, December 21, 2013 11:14 PM
> To: David Harris; Albe Angel; Alan Eisenman; Rubenstein Michael
> Subject: Theranos
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> Alan,
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> Here is the article i found that mentions \$160 Billion savings over 10
> years for the govt because of theranos
>
> <http://www.gingrichproductions.com/2013/10/breakout-in-healthcare/>
>
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>
> Marc Ostrofsky

> New York Times
> Bestselling Author
> Get Rich Click!
> &
> Word of Mouse
>
> Sent from my iPad
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